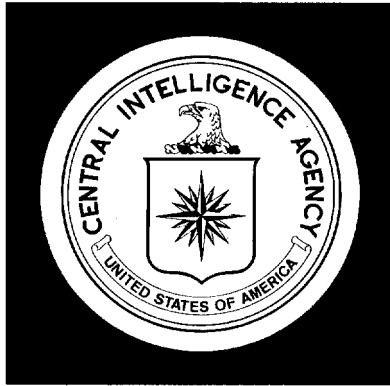


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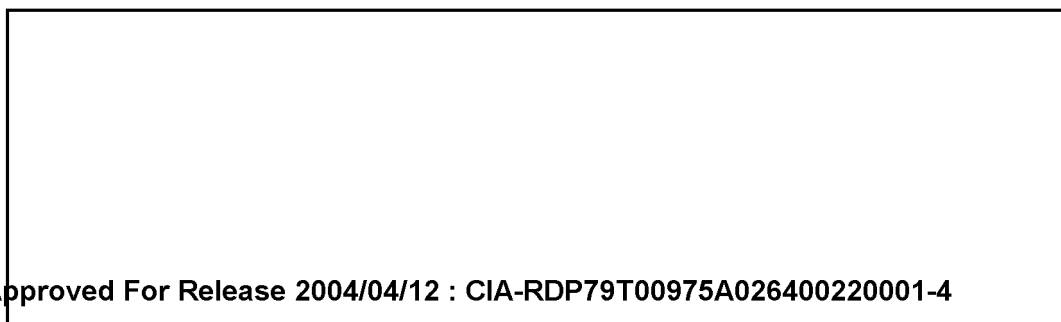
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INDOCHINA: The North Vietnamese are now in the process of concluding a highly successful logistic effort. As a result of heavy supply shipments, lack of interdiction, and unprecedented road and POL pipeline construction since last fall, the Communists in South Vietnam are now better able to support their forces than at any other time during the war.

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Over the past year, the Communists have constructed or upgraded more than 1,000 miles of motorable roads and added at least 125 miles of pipeline to the southern Laos Panhandle and western South Vietnam systems. In addition to permitting near-year-round deliveries to South Vietnam, including the COSVN area, the recent road construction also has given Hanoi the ability to resupply units in the coastal lowlands in South Vietnam's MR 1 and MR 2 by truck--something they were unable to do during the 1972 offensive. Deliveries from Vinh to southern South Vietnam can now be made in less than a month.

During the next few months, the Communists probably will improve their logistic position further. Construction and upgrading along the western supply corridor in South Vietnam are continuing. Moreover, the improved road network in southern Laos will enable Hanoi to move some supplies through this area during the rainy summer months. However, during the next few months the Communists probably will use the western supply route in northern South Vietnam's MR 1 for the bulk of their cargo shipments because more favorable weather conditions will prevail in that area.

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EGYPT-USSR-LIBYA: Cairo continues to be concerned that Libya and the Soviet Union will establish closer ties.

The Egyptians appear increasingly fearful that the move toward closer relations between Libya and the Soviet Union, evident in Libyan Prime Minister Jallud's current visit to Moscow, is intended to isolate Egypt and the Arab states friendly with the US.

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Cairo's fears were reflected in public criticism of the Soviet Union last week by the Arab Socialist Union, Egypt's sole political party, for the first time in its ten-year history. The statement, carried in the Cairo press, came in the context of a warning to Israel that Egypt is prepared to resume hostilities if fighting on the Golan Heights results in "full-scale war." The Socialist Union attributed Egyptian-Soviet differences to what it saw as Soviet opposition to military moves to win back occupied territories.

Cairo's fears were given further airing in a front-page editorial in Al-Akhbar attacking President Qadhafi's cut-off of aid to Egypt and his "new wedding" with Moscow. "May your support and your aid go to hell," the editor advised the Libyan. Al-Ahram published a more subtle editorial snidely welcoming an unnamed Arab state to the ranks of those, like Egypt, who pursue a policy of "nonhostility" toward the Soviets. The editorial charged, however, that the move toward friendship with Moscow is in this case designed to create "other struggles in the Arab world."

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CHINA: The recently concluded spring Canton Fair was a disappointment to US businessmen. In spite of attendance by a record 175 US firms, US purchases were only about \$15 million, compared with the \$25 million at the fair last fall. US sales also fell below the \$15-million total of last fall.

Economics, not politics, was the cause of the low level of business transacted. Many manufactured items were in short supply, many types of Chinese mineral and crude material exports were not available, and prices for Chinese goods remained at or above world levels. The current ideological campaign in China seems to have had no effect on the negotiating atmosphere or on attitudes toward foreign businessmen.

Peking deliberately limited import transactions by cutting back invitations to US manufacturing firms and by not sending representatives from Techimport, the trade corporation that purchases foreign plants and technology. Only 10 percent of the US firms invited were exporters, and few of these were major manufacturers. [REDACTED]

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JAPAN-US: Japan's trade with the US posted a deficit of \$180 million in the first four months of 1974--in sharp contrast to the \$580-million surplus in the corresponding period last year.

Underlying the reversal was an extraordinary 63-percent increase in imports from the United States. Much of the rise in import value reflected price increases. Import growth, however, will probably slow during the remainder of the year. Price increases are moderating, and the slump in industry is reducing Japan's appetite for imports of raw materials. Imports of logs and lumber, scrap metal, and hides and skins already are declining rapidly.

The value of exports to the US was up 22 percent during January-April 1974 over last year. Practically all of the increase stemmed from higher prices. Exports to the US accelerated last month--30 percent above April 1973. Exports of steel and automobiles were notably strong. [REDACTED]

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